Canadian Grain Commission | Commission canadienne des grains

Quarterly Financial Report:

Statement Outlining Results, Risks and Significant Changes in Operations, Personnel and Programs (Unaudited)

For the Period ended December 31, 2015

Canada

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1. Introduction

This quarterly financial report should be read in conjunction with the *Main Estimates* and *Supplementary Estimates*. It has been prepared by Canadian Grain Commission (CGC) management as required by section 65.1 of the *Financial Administration Act* and is in the form and manner prescribed by the Treasury Board Accounting Standard 1.3. This quarterly report has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Activities

The CGC was established in 1912 and is the federal government agency responsible for administering the provisions of the *Canada Grain Act* (CGA).

The CGC's mandate as set out in the CGA is to, "in the interests of the grain producers, establish and maintain standards of quality for Canadian grain and regulate grain handling in Canada, to ensure a dependable commodity for domestic and export markets."

The CGC's vision is "To be a world class, science-based quality assurance provider." The Minister of Agriculture and Agri-Food is responsible for the CGC.

In order to effectively pursue its mandate, the CGC aims to achieve the following strategic outcome: **Canada's grain is safe, reliable and marketable and Canadian grain producers are properly compensated for grain deliveries to licensed grain companies.**

The CGC's Program Alignment Architecture has five programs. The Quality Assurance Program, Quantity Assurance Program, Grain Quality Research Program, and Producer Protection Program each contributes to making progress to the sole strategic outcome. The Internal Services program supports all other four programs within the CGC.

Further details on the CGC's authority, mandate and program activities may be found in the *Report on Plans and Priorities* and the *Main Estimates*.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting (modified cash) and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying Statement of Budgetary Authorities compares the Department's spending authorities granted by Parliament to those used by the department. Information in the Statement of Authorities is consistent with that in the *Main Estimates* and *Supplementary Estimates*.

The authority of Parliament is required before moneys can be spent by the Government. Approvals are given in the form of annually approved limits through *Appropriations Acts* or through legislation in the form of statutory spending for specific purposes.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year.

The CGC uses the full accrual method of accounting to prepare and present its annual departmental financial statements included in the *Departmental Performance Reports.* However, the spending authorities voted by Parliament are on an expenditure basis (modified cash) of accounting.

1.3 CGC Financial Structure

A revolving fund was set up for the CGC in 1995 with the expectation that the CGC would be largely self-funded through fees for service. Prior to August 1, 2013, CGC user fees had not increased since 1991 despite the fact that operating costs had continually increased. As a result, overall cost recovery had fallen from approximately 90 percent in the early 1990s to between 50 and 60 percent in the past decade. The CGC's falling cost recovery level caused the CGC to rely on ad hoc government appropriation since 1999 to fund operations on an annual basis.

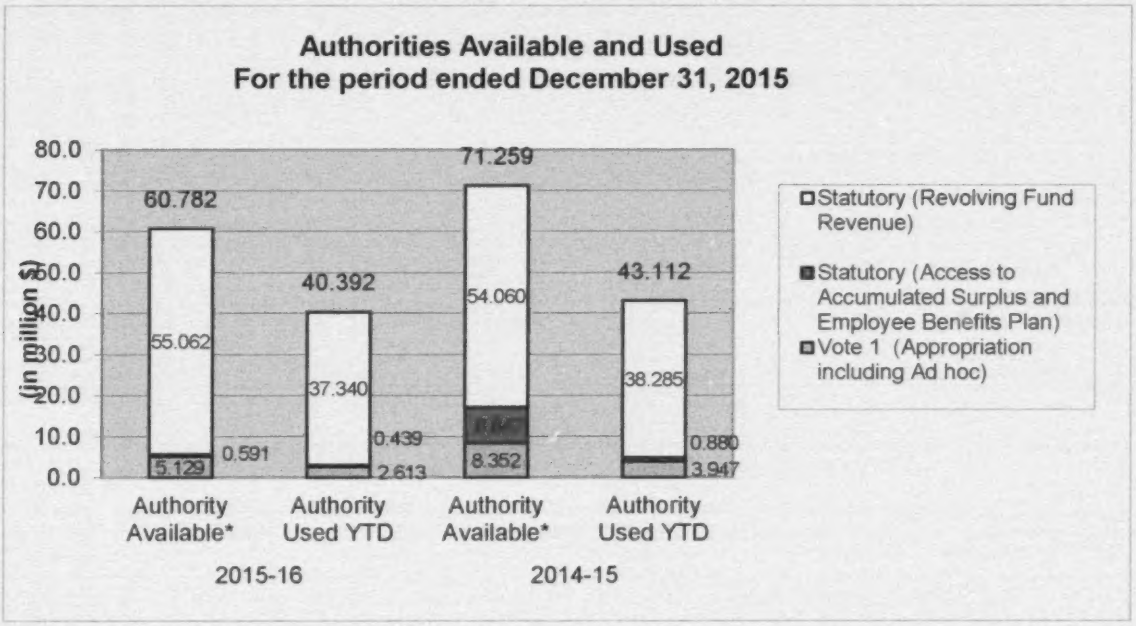
In fall 2012, the CGC initiated a process to modernize user fees to align with amendments to the CGA introduced in Parliament as part of Bill C-45. Bill C-45 received Royal Assent on December 14, 2012. Amended legislation and updated user fees came into force concurrently on August 1, 2013 and eliminated the need for annual ad hoc funding going forward.

The CGC funding structure is based on budgetary authorities that are comprised of both statutory and voted (non-statutory) authorities. The statutory authorities include employee benefit plan authority for appropriation-funded personnel costs and the CGC revolving fund authority, which allows the CGC to re-spend fees that it has collected. The voted authority is Vote 1 – Program Expenditures, which includes annual appropriation authority and any ad hoc appropriation authority for the fiscal year.

The CGC implemented its sustainable funding model on August 1, 2013. Planned spending for fiscal year 2015-16 is based on operations under an amended *CGA* and updated user fees. The CGC will recover approximately 91 percent of its costs through user fees. User fees will increase based on inflation as published in November 2012 in the CGC's User Fee Consultation and pre-proposal notification. Planned FTEs are 404 during fiscal year 2015-16.

2. Highlights of Fiscal Year to Date

This section highlights any significant items that affected the year-to-date results and/or contributed to the net change in resources available for the year and actual expenditures. It should be read in conjunction with the ***Statement of Budgetary Authorities*** and the ***Departmental Budgetary Expenditures by Standard Object,*** which can be found at the end of this report.



* Authority available based on amounts approved through the Estimates process. Amounts detailed in Statement of Authorities.

2.1 Authority Available Analysis

As reflected in the *Statement of Budgetary Authorities*, the department's total authority available for use (net of Revolving Fund revenue) in the fiscal year as at December 31, 2015 is $5.720 million, as compared to $17.199 million as at December 31, 2014. The decrease of 66.74% ($11.479 million) can be attributed to the transition of the CGC to a sustainable funding model on August 1, 2013, resulting in the following changes in the CGC funding source elements:

1. Vote 1 (Appropriation including Ad hoc) authority has decreased by $3.223 million over the same period last year primarily due to:

    a. a decrease of $2.643 million in voted appropriations to support employee termination benefit obligations with the implementation of amendments to the *CGA*. The CGC received no funding to support employee termination benefit obligations in 2015-16, and

    b. a decrease of $0.570 million in its operational budget carry forward. The CGC received $0.245 million in 2015-16 for its operational budget carry forward. The CGC received $0.815 million in 2014-15 for its operational budget carry forward.

2. Statutory (Access to Surplus and Employee Benefit Plan) authority decreased by $8.256 million over the same period last year due to:

a. a decrease of $7.947 million in its access to surplus for severance payments. No authority to access surplus was requested in 2015-16; and

b. a decrease of $0.309 million for employee benefit plan due to reduction in appropriation to support employee termination benefit obligations with the implementation of amendments to the *CGA*.

With the implementation of revised user fees to support its sustainable funding model, the CGC forecasts an increase of $1.002 million in its revolving fund gross revenues authorities due to inflation. This increase does not affect the change in the CGC budgetary authorities.

2.2 Authority Used Analysis

As reflected in the *Departmental Budgetary Expenditures by Standard Object*, the department's total budgetary authority used in the quarter ended December 31, 2015 is ($5.374 million), as compared to ($6.701 million) as at the quarter ended December 31, 2014. The increase of $1.327 million in total budgetary authority used can be attributed to:

1. the overall decrease of $1.343 million in revenues collected in the quarter ended December 31, 2015 primarily due to an increase in accounts receivable as at the end of period 9 as compared to last year; and

2. the overall decrease of $0.016 million in expenditures is as a result of the following significant variances:

   a. Personnel expenditures increased by $0.562 million as compared to the same quarter last fiscal year primarily due to overtime incurred in 2015-16 because of higher grain volumes handled; and

   b. Acquisition of machinery and equipment decreased by $0.504 million as compared to the same period last year primarily due to the purchase of scientific equipment in 2014-15.

The total budgetary authority used in the year to December 31, 2015 is ($14.398 million) as compared to ($14.663 million) for the same period last year. The decrease of $0.265 million in budgetary authority used can be attributed to:

1. the overall decrease of $2.985 million in revenues collected primarily due to lower grain volumes handled and an increase in accounts receivable as at end of period 9 as compared to the same period last year; and

2. the overall decrease of $2.720 million in expenditures is as a result of the following significant variances:

   a. Personnel expenditures to date decreased by $2.172 million as compared to the same period last year due to severance liquidation payments made in 2014-15 and the continued transition to a revised organizational structure realized from amendments to the *CGA* that occurred in 2014-15. There were no severance

liquidation expenditures reported in 2015-16;

b. Professional and special services expenditures to date increased by $0.556 million as compared to the same period as last year primarily due to pay consolidation initiatives as well as costs associated with a consultant for the review of the GRL space; and

c. Other subsidies and payments decreased by $1.077 million as compared to the same period last year due to implementing salary payment in arrears by the Government of Canada in 2014-15.

As reflected in both the Statement of Budgetary Authorities and the Departmental Budgetary Expenditures by Standard Object, overall expenditures, with consideration to the above changes, are consistent between fiscal periods.

3. Risks and Uncertainties

The CGC receives funding through both voted appropriations and fees related to the handling of grain. Service fee revenue is largely based on grain volumes handled—a volume which fluctuates from year to year. The CGC revolving fund is utilized as effectively as possible. The annual budget is also re-profiled through the year to deal with shifting needs and priorities, including planning for and accommodating a potential 20 percent swing in projected grain volumes during budgeting.

Legislation to amend the *CGA* was introduced as part of Bill C-45, the *Jobs and Growth Act, 2012*, in October 2012. Bill C-45 received royal assent on December 14, 2012. On November 1, 2012, the CGC launched consultations on new CGC user fees that reflect an updated CGA and streamlined CGC operations. Most of the legislative amendments came into force on August 1, 2013. Updating user fees have eliminated the CGC's dependence on annual ad hoc funding and created a more stable environment for integrated people and business management. A stable funding environment may reduce overall organizational risk and allow the CGC to continue to successfully deliver its program activities and deliver upon its strategic outcome.

4. Significant Changes to Operations, Personnel and Programs

From fiscal year 2012-13 to fiscal year 2015-16, the CGC has transformed itself into a streamlined and financially sustainable organization. This is due to certain activities being eliminated and other activities being adjusted and/or implemented to allow the CGC to continue to achieve its mandate and manage risk. Changes will result in a reduction in operational spending of $21.835 million between 2012-13 and 2015-16.

Planned operational spending will stabilize at approximately $60.537 million in 2015-16. This includes $5.475 million from annual appropriation and projected spending of approximately $55.062 million of revenue earned through user fees as adjusted for inflation. Planned human resource requirements will have decreased from approximately 731 full time equivalents (FTEs) (as at March 31, 2013) to 404 FTEs by the end of this fiscal year.

Approval by Senior Official

Approved by:

Jim Smolik
Acting Chief Commissioner
Winnipeg, Manitoba
February 17, 2016

David Peters
Acting Chief Financial Officer
Winnipeg, Manitoba
February 17, 2016

Statements of Budgetary Authorities (Unaudited)

For the period ended December 31, 2015

For the period ended December 31, 2015 (in thousands of dollars)	*Fiscal Year 2015-16* Total available for use for the year ending March 31, 2016*	Used during the quarter ended December 31, 2015	Year-to date at quarter end	*Fiscal Year 2014-15* Total available for use for the year ending March 31, 2015*	Used during the quarter ended December 31, 2014	Year-to date at quarter end
Vote 1						
Appropriation including Ad hoc	**$ 5,129**	**868**	**2,613**	**$ 8,352**	**$ 1,074**	**$ 3,947**
Statutory Authorities:						
Revolving Fund Gross Expenditures	55,062	13,222	37,340	62,007	12,929	38,285
Revolving Fund Gross Revenues	(55,062)	(19,609)	(54,790)	(54,060)	(20,952)	(57,775)
Revolving Fund Net Expenditures	$ 0	(6,387)	(17,450)	$ 7,947	$ (8,023)	$ (19,490)
Employee Benefit Plan	591	**145**	**439**	900	247	880
Total Statutory Authorities	**591**	**(6,242)**	**(17,011)**	**8,847**	**(7,775)**	**(18,610)**
Total Budgetary Authorities	**$ 5,720**	**(5,374)**	**(14,398)**	**$ 17,199**	**$ (6,701)**	**$ (14,663)**

**** Includes only Authorities available for use and granted by Parliament at quarter-end.***

Due to rounding, totals may not add to totals shown.

Departmental Budgetary Expenditures by Standard Object (unaudited)

For the period ended December 31, 2015

(in thousands of dollars)	Fiscal Year 2015-16 Total available for use for the year ending March 31, 2016*	Expended during the quarter ended December 31, 2015	Year-to date at quarter end	Fiscal Year 2014-15 Total available for use for the year ending March 31, 2015	Expended during the quarter ended December 31, 2014	Year-to date at quarter end
Expenditures:						
Personnel	41,919	10,369	29,489	52,361	9,805	31,660
Transportation and communication	3,510	1,119	2,299	3,369	1,095	2,324
Information	199	62	192	191	77	130
Professional and special services	3,212	445	1,693	3,790	539	1,137
Rentals	5,156	1,361	4,087	4,948	1,239	3,776
Repairs and Maintenance	930	39	444	892	138	734
Utilities, materials and supplies	1,605	163	510	1,540	171	383
Acquisition of machinery and equipment	4,251	677	1,670	4,168	1,181	1,882
Other Subsidies and payments	0	0	8	0	5	1,086
Total Expenditures	**60,782**	**14,235**	**40,392**	**71,259**	**14,251**	**43,112**
Revolving Fund Revenue (To be credited to Vote)	**(55,062)**	**(19,609)**	**(54,790)**	**(54,060)**	**(20,952)**	**(57,775)**
Total Budgetary Authorities	**5,720**	**(5,374)**	**(14,398)**	**17,199**	**(6,701)**	**(14,663)**

**** Includes only Authorities available for use and granted by Parliament at quarter-end.***

Due to rounding, totals may not add to totals shown.